

# California's Parent-Child Exclusion Explained

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California's *parent-child exclusion* applies to any real property purchases or transfers between parents and children.

In a nutshell, the parent-child exclusion enables children to inherit their parents' property and parents to inherit their children's property without a property tax increase, subject to certain qualifications and limitations. Prop 19 – *which you can read about in our singlette Keeping Pace with California Tax Law – Understanding Prop 19* – changed the way the parent-child exclusion works as of Feb. 16, 2021.



## The Parent-Child Exclusion Before and After Prop 19

In California, real property, such as a home, is reassessed only upon a change in ownership, but when the change in ownership is within a family – specifically parent to child, child to parent, or grandparent to grandchildren – you can file for a reassessment exclusion to prevent a reassessment or reduce the reassessed value.

Before Prop 19 (effective Feb. 16, 2021), here's how the parent-child exclusion worked:

- Parents (transferor) could transfer their primary residence to their child/children

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(transferees) without a reassessment.

- There was no limit on the value of the home that could be transferred.
- The child/children could live in the home, use it as a vacation home, or rent it out.
- Parents could transfer up to \$1 million of California real property other than their primary residence to a child/children without reassessment. If the assessed value is more than \$1 million, the first million dollars is transferred without change, and only the balance is reassessed.

Prop 19 changed the rules. For any property transfers occurring on or after Feb. 16, 2021, the parent-child exclusion works like this:

- The exclusion applies only if the child/children use the home as their primary residence. If the home is transferred to more than one child, they must all use it as their primary residence.
- The exclusion doesn't apply if the home is used as a vacation home or rental property.
- The exclusion applies only to a principal residence. It does not apply to any other California real property, such as a vacation home or rental property.

## Defining "Child"

In the context of this exclusion, the following family members are considered "children":

- Natural child
- Child adopted before the age of 18 years
- •Stepchild, assuming the parents are still married
- Foster child
- Son-in-law or daughter-in-law
- Grandchild – for property transfer from a grandparent to a grandchild whose parents are both deceased

## Primary Residence Only

On or after Feb. 16, 2021, the parent-child exclusion applies only to the transfer of a primary residence. And it can only be used if the transferee uses the home as their primary residence and files for the homeowner's exemption for the property. The exclusion is not available if the home is used as a vacation home or is rented out. If the home is transferred to more than one child or parent, all transferees must live together in the home as their primary residence.

## Maximum Amount to be Sheltered

On or after Feb. 16, 2021, only the first \$1million of increased value can be sheltered from reassessment. For example, if the primary residence is currently assessed at \$500,000 but has a market value of \$1.5 million, the property will continue to have an assessed tax value of \$500,000. However, if the home has a market value of \$3 million, the property's new

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assessed tax value will be \$2 million (\$500,000 + \$1.5 million).

### Filing the Required Form

To qualify for the parent-child exclusion, you must file a *Claim for Reassessment Exclusion for Transfer Between Parent and Child* with your county assessor's office, which you can obtain from that office or download from its website. You may also be required to file copies of the following documents:

- Trust
- Wills
- Death certificate
- Marriage certificate

Your claim must be filed within three years of the date of transfer or death, or prior to the sale or transfer to a third party. You may also file a claim within six months after the mailing date of the supplemental notice or escape assessment. In addition, you must file a Homeowners' or Disabled Veterans' Exemption within one year of the property's transfer.

If you file your claim after the legal deadline, the exclusion may be granted but no refunds will be issued for prior years. It will be granted for the year the claim is filed as long as the property has not been sold to a third party.

### Grandparent-Grandchild Exclusion

Just as parents can transfer their principal residence to their children without triggering a property tax reassessment, grandparents can transfer their principal residence to their grandchildren, but only if both of the grandchild's parents are deceased. Even if both parents relinquish their claim to the grandparent's property, a grandchild qualifies for the exclusion only if both parents are deceased.

To claim the exclusion, you must file a "Grandparent to Grandchild Claim for Reassessment Exclusion for Transfer" form with your county assessor's office. You can obtain a form from the office or download it from the assessor's website.

### We're Here to Help

If you've transferred any real property to a child or grandchild or are planning to do so, we strongly recommend that you consult your financial advisor or CPA to find out about the tax implications of doing so. If you are a client of ours or are considering it, contact us for guidance. We can clarify anything that seems confusing, provide the forms you need, and answer specific questions, such as the following:

- I missed the filing deadline. Is there anything I can do after the deadline to benefit from the exclusion?
- We already sold the property we inherited from our parents. Can we still file a claim?

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- We inherited the property before Feb. 16, 2021. Can we still qualify for the parent-child exclusion?
- If the property is held in a trust, does it qualify for the exclusion?
- What additional paperwork do I need to submit when I file my claim?

Regardless of your questions or concerns, we can help you navigate the system and ensure that you receive the tax breaks to which you're entitled. We hate to see anyone pay more in taxes than they are required to by law

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**Keep in touch.**

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